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COMMENTS ON SECTOR APPROACH

Economic Defense Division
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The Defense Department's "sector" approach was promulgated in slightly different form in interagency committees beginning approximately a year ago when the broad question of criteria was under review.

These ideas were put forth in connection with Defense's so-called "functional" approach to an appraisal of the Japanese proposal for relaxation of the China differential. Other related ideas have been incorporated in their "mobilization base" concept. In a Defense Department evaluation, in October 1955, of the British "thermonuclear warfare" concept, particular attention was called to electric power as one example of a vital requirement in thermonuclear production and it was stated that:

"all items essential to the production of electric power should be denied to the Bloc if thermonuclear criteria were to be applied effectively. Such control would be particularly appropriate, since it is known that Soviet atomic arms production as well as its overall military capabilities, is now seriously hampered by a shortage of electric power and the means for increasing this production."

To date, however, Defense has never given a clear exposition of the "sector" approach. By piecing together remarks on the subject over

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the past year in interagency working groups, and from informal Defense papers on the subject, the following is an informal attempt at clarification of certain aspects of this approach.

In the first place, the concept is very broad and is aimed at materially restricting and retarding the industrial base of the Sino-Soviet Bloc. It is designed, furthermore, to add items to the control lists rather than to provide for less coverage. The original plan of Defense Department in planning an embargo, let us say, of the electric power sector meant complete embargo of everything essential to the industry down to the least strategic materials, such as possibly cement as an extreme example, and even of the means of transport required to establish the complex. In the latest explanation, attached to EDAC D-121/4a of 19 September 1956, it is stated that "We must beware of the temptation to consider an item strategic simply because it has a direct usefulness to the military or because it enters into the last stage of production of military end items."

This plan obviously is unworkable, not only because the Bloc produces abundantly many of the materials and equipment required in the electric power or any other sector and relies to an insignificant extent on imports, but also because of the possibility of substitution of commodities from sector to sector. In addition, the economic cost to the free world of such widespread controls would be far greater

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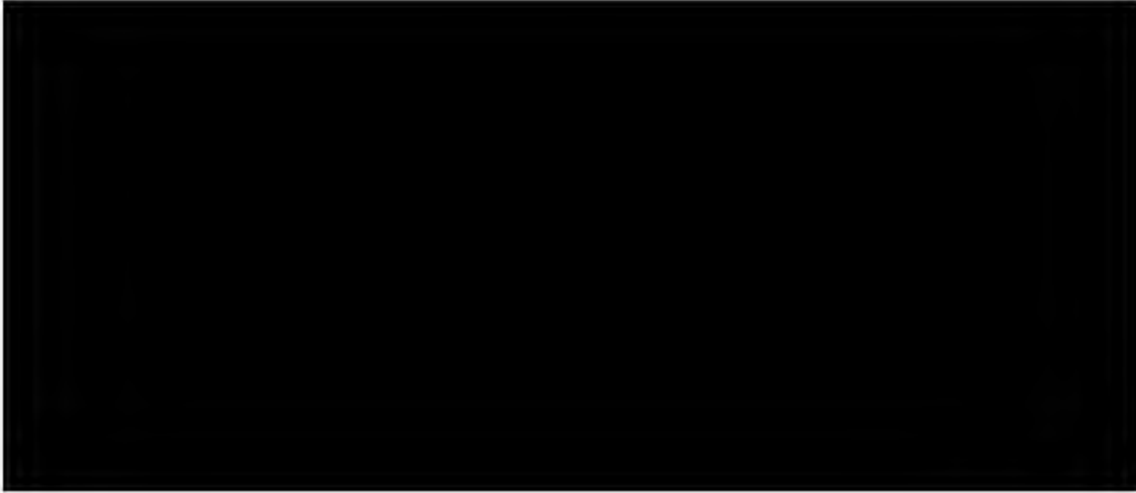
than to the Bloc except in the case of a few items containing either scarce raw materials or highly developed technology. The items listed by Defense in Attachment I to EDAC Document 121/4a appear to be merely illustrative of a few key commodities and not at all intended to give sector coverage. As delineated in the paper, there is practically no difference from the category approach in the present lists. Continuing emphasis is placed on the importance of the industrial base to defense capability, and the need to broaden present criteria to justify the addition of items "necessary to maintain a significant security deterrent." The fact that the Defense Department has in the past related its electric power sector to the British thermonuclear approach appears to indicate a lack of understanding of the British aim of slashing the present lists in order to substitute only items directly related to nuclear warfare plus certain others such as conventional arms and munitions, a few scarce raw materials and items involving a high degree of technology.

State Department prefers not to consider its alternative II to "Proposed Courses of Action" as a new approach to criteria. However, with slight alteration and some difference in degree of coverage, it could serve as a "thermonuclear" approach and might possibly be used for negotiation with the UK. ^{1/} This would entail principally the

^{1/} See most recent UK position on controls, including statement that a US response to the "thermonuclear list revision still UK goal." London, 1583, 20 September 1956, 2 pp., Secret.

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